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TRUCK & OFF-HIGHWAY INDUSTRIES

November 1981

Mack's Back In The Black

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Overcapacity Dogs Lift Trucks

Will Truck Importers Go Domestic?

Special Report:
Subsurface Mining

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Volume 3 Number 8

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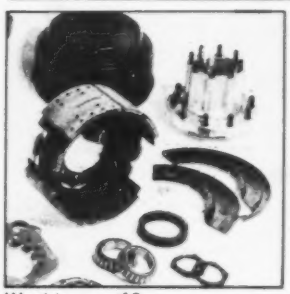

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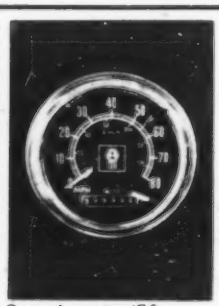

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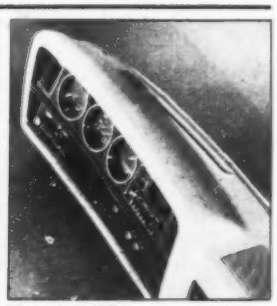

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Industrial truckmakers like JCB, Eaton/Yale and Clark square off in a tight market.

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December gets into detail with a special specifications section chockfull of facts and figures, plus our annual off-highway industry wrap-up.

abc

TRUCK & OFF-HIGHWAY INDUSTRIES (USPS 481-290) magazine is published bimonthly (Jan/Feb, Mar/Apr, May/June, July, Aug, Sept, Oct, Nov, Dec) by Chilton Co., Chilton Way, Radnor, PA 19089. Chilton Co. is a division of American Broadcasting Companies Inc., New York, NY. Subscription prices: United States—$20.00 per year, $38.00 for 2 years; Canada and Foreign—$50.00 per year. Air rates on request. Single copies and back issues on request. All subscription orders must be accompanied by cash or check along with complete information for classification, including title of the individual and the product the company manufactures. 2nd class postage paid at Philadelphia, PA 19104 and additional mailing offices. POSTMASTER: Send address changes to TRUCK & OFF-HIGHWAY INDUSTRIES, P.O. BOX 2055, Radnor, PA 19089. ©Chilton Company, 1981.

Will Truck Importers Go DOMESTIC?

Foreign truck OEMs like Iveco, Mack/Renault and Volvo are still trying to nail down sufficient retail volume to assemble commercial vehicles stateside. Will they follow Mercedes' lead?

by John A. Stark

Import truckmakers are a stone's throw away from vertically integrating the entire ranks of the domestic commercial vehicle business for the first time.

Truck & Off-Highway Industries has learned that Mercedes-Benz, Iveco and Mack/Renault are considering entry of various models of Class 3-5 step-vans in the US within two years, virtually wrapping up vertical integration at the domestic marketplace.

Currently, Class 4-5 truck business remains the sole segment lacking penetration by an import commercial vehicle builder.

Once vertical integration occurs, importers may spare no mercy in pursuing aggressive tactics of competitive pricing and ready equipment availability to build sizeable retail unit volumes during the next cyclical upturn in business, while expanding shares of market. Stateside assembly and manufacture could be near.

The lure of local truck assembly for importers is tempting. Benefits of economies of scale in the production process are there, depending of course on the size of unit volumes. And the higher the volumes, the more probable that importers will source some key componentry stateside.

Current unit volumes for importers of trucks, however, are so small that it prohibits foreign truckmakers from sourcing domestically and shipping componentry offshore to vehicle assembly sites which produce commercial trucks destined for the North American marketplace.

In fact, our inquiries show that European vehicle builders like Mercedes-Benz, Iveco and Mack/Renault foresee little change in sourcing of componentry by country of origin. Hence, it's a safe bet that foreign OEMs (except for Mercedes-Benz) won't assemble trucks locally until 1983 at the earliest.

Mercedes-Benz led importers to the domestic commercial vehicle marketplace in the early 1970s, expanded retail sales to 4051 trucks (a frontrunner 4% share of Class 6 units sold by importers) in 1980 and then took a $8.1 million plunge into partial assembly of mid-size trucks that year at a small site in Hampton, VA.

Iveco will launch two small Class 3-4 bus models in the US soon. Both units originate from commercial Z-van chassis, like this Z-100 prototype.

Although Mercedes is assembling only 11 trucks daily at Hampton, it's capable of boosting output to about 26 units daily with the possible addition of a second work turn at the facility. A third work turn could accelerate production to 40 vehicles each day, perhaps by 1985.

The game plan at the assembly facility is the production of 10,000 medium-duty trucks annually by 1985. Then Mercedes may decide to either build cabs or expand vehicle assembly capacity in the US.

Import Sourcing

To expand output of mid-size trucks at Hampton, Mercedes plans to start a pre-production assembly run of 24 partially-built Class 4-5 step-vans (model L613) at the facility next month. Final production is tentatively set for 1982.

Five L613 Mercedes prototypes have been undergoing domestic "fleet runs" for about one year (see July '81, p. 18, "Mercedes Tests Van Prototype," for details). According to Mercedes' Fred Meyer, vice president-Commercial Div. & Corporate Development, "All systems are go for the L613. It'll consist of an integrated design [engine and chassis] sourced from parent Daimler's operations in Dusseldorf, West Germany."

He told *TOHI* that L613 step-vans will probably be exported from Germany in knock-down versions to Hampton where aluminum bodies sourced from Grumman Olson will be assembled to the chassis. "As we see it now," Meyer added, "the L613 should wrap up our truck model lineup in North America."

Mercedes' W.R.F. Bodack, North American president, explained earlier this year, "Class 5 truck business isn't dead in the US. What you're actually seeing is a slow death of Class 5 truck manufacturers due to insufficient individual volume within this truck class.

"Volumes in this [Class 5] market alone aren't sufficient to offer domestic vehicle producers an adequate margin of profit in the production process. But our worldwide volumes [in excess of 25,000 units yearly] are large enough to profitably fill this domestic void in Class 5 trucks."

It also offers Mercedes a fuller range of Class 5-7 trucks, increasing its clout in the mid-range diesel truck marketplace that may possibly snowball into increased local demand for commercial vehicles and higher assembly volumes at Hampton.

As a result, Mercedes' Meyer is targeting combined Class 6-7 share of domestic business to grow steadily from an estimated 8% in 1981 to 15% by 1985, while retaining its lead role as chief importer of partially assembled trucks to the US.

Mack Trucks, on the other hand, doesn't see the domestic Class 6-7 truck business shaping up that way. According to Mack's J. B. Curcio, president and chief operating officer, "We estimate that Mack, with its Renault Midliner, will trail Mercedes with 4-4½% share of the import Class 6-7 diesel truck business this year, overtaking Mercedes in 1982 with 6% of business."

It remains to be seen whether or not Mack's Midliner plan materializes. Nonetheless, Mack got off to an impressive start early this year, bolstering Midliner sales by nearly 70% to 1327 vehicles through August—overtaking Volvo.

Curcio reconfirmed a news report by *TOHI* last year that his firm still is considering stateside assembly of Renault-produced Midliner trucks by 1985 when expected retail unit volume may reach the magical 10,000 mark.

Like Mercedes, Mack is eyeballing stateside distribution of Class 4-5 step-vans. "Once our Midliner truck program is running well [perhaps by 1983]," Mack's president said, "it's a distinct possibility we'll conduct a serious market study and look closely at entry of 5-5½ ton Renault step-vans in the US."

Class 3-4 step-vans aside, Curcio readily admitted that Renault Midliner trucks have been a big asset to Mack's domestic distribution network this year. Through August, domestic sales of Mack-produced trucks are down 48% to 11,482 units, while Midliners from Reanult are up by 70%. "Midliners are enabling some of our dealers to make money—ones that otherwise wouldn't be posting profits."

Mack claims to be the lead importer of diesel trucks with highest content of components sourced domestically. A rundown of major vehicle components sourced by country of origin substantiates it. Key but less costly items like transmissions, axles, brakes and tires, to one degree or another, come from stateside suppliers.

Nonetheless, two of the Midliner's costliest components to manufacture (engines and cabs) are built by Renault in France. "We have to take our relationship with Renault one step at a time," Curcio pointed out. "We don't have sufficient capacity in our existing domestic Mack plants to commit to Class 6 truck assembly."

So if Mack reaches its scaled down projection of 10,000 Midliner truck sales by 1985, chances are better than even that local vehicle assembly could occur in a new or expanded stateside truck complex.

That volume of 10,000 units yearly finds somewhat common ground at rival truckmaker Iveco. Its North American president and general manager R. S. Reardon Jr. told *TOHI*, "Assembling Iveco trucks in the US is only a matter of volume. We may achieve that goal in two years."

Iveco admittedly is a relative late

Off-Shore Sourcing Contin

COMPONENTS	IVECO	1980 MACK
Cab	Germany	France
Chassis	Italy	France
Engine	FR/Italy	France
Transmission	Italy/US	US
Axles	IT/Ger	France/US
Brakes	Italy	France/US
Wheels	Germany	France
Tires	US	US
Suspension	IT/Ger	France
Glass	Germany	France

Import Truckmakers Vertically Integrate

TYPE OF TRUCK	1970 DOMESTIC	IMPORTS
CLASS 1-2	1,408,595	64,628
CLASS 3-5	77,002	——
CLASS 6	134,678	124
CLASS 7	34,729	——
CLASS 8	91,072	——
TOTAL	1,746,076	64,752

MERCEDES	IVECO	1981 MACK	MERCEDES	IVECO	1982 MACK	MERCEDES
Brazil	Germany	France	Brazil	Germany	France	Brazil
Brazil	Italy	France	Brazil	Italy	France	Brazil
Brazil	FR/Italy	France	Brazil	Italy	France	Brazil
Brazil/US	Italy/US	US	Brazil/US	Italy/US	US	Brazil/US
Brazil	IT/Ger	France/US	Brazil	IT/Ger	France/US	Brazil
Brazil	Italy	France/US	Brazil	Italy	France/US	Brazil
Brazil	Germany	France	Brazil	Germany	France	Ger/IS
US	US	US	US	US	US	US
Brazil	IT/Ger	France	Brazil	IT/Ger	France	Brazil
Europe	Germany	France	Europe/US	Germany	France	Canada

NOTE: All Data Based On A Company-By-Company Check; Components Sourced For Typical Imported Iveco Magirus, Mack/Renault Midliner, And Mercedes-Ben.. Medium-Duty (Class 6-7) Diesel Trucks. Volvo Declined To Participate.

1975 DOMESTIC	IMPORTS	1980 DOMESTIC	IMPORTS	8 Mos., 1981 DOMESTIC	IMPORTS
1,950,799	228,097	1,731,154	480,560	1,124,388	313,410
33,380	——	6,014	——	1,935	——
158,584	1,218	88,657	5,161	52,112	3,591
22,993	——	58,052	384	35,399	880
83,148	——	116,792	478	68,585	554
2,248,904	229,315	2,000,669	486,583	1,282,419	318,435

NOTE: Unit Count Represents US Retail Sales, Except Iveco Imports
SOURCE: Motor Vehicle Manufacturers' Assn.

Foreign Truck Penetration Picks Up Steam

IMPORTER	1979	1980	8 MOS., 1981
IVECO	79	1,400	1,800
MACK/RENAULT	—	782	1,327
MERCEDES-BENZ	3,708	4,051	2,496
VOLVO	518	1,187	1,202

NOTE: Unit Count Represents U.S. Retail Sales
SOURCE: Motor Vehicle Manufacturers' Assn.; Iveco

comer to the domestic truck marketplace. A couple of years ago it entered with European-produced Magirus Class 6-7 diesel vehicles. Four current models of 160-hp to 200-hp Magirus-Deutz cabovers continue to be manufactured in Europe with European components. Only tires and an optional automatic transmission are sourced stateside.

Shortly afterwards, Iveco followed up entry of Magirus mid-range trucks in the US with introduction of a Class 3 model Z-100 vehicle, first in a series of European designed vans to come from Europe. "We will offer a full range of Class 3-7 trucks in the US by 1983," Reardon disclosed.

By next month, Iveco plans to add a new water-cooled diesel Z-van, model Z-110 (110 hp), to its domestic lineup. Another Class 3-4 Z-van, model Z-220 (120 hp) powered by a water-cooled diesel engine, will follow early next year. Both models share two configurations apiece.

Iveco also is targeting a heavier Class 4-5 Z-350 (150 hp) model van for US entry by January 1983 when it turbocharges its Z-220 van diesel powerplant. Hence, vertical integration at the domestic truck marketplace is near.

To expand retail unit volumes of Z-vans as they enter the US distributor network, Iveco expects to begin entry of Z-van chassis on which small bus bodies will be installed, starting with stateside distribution of a Class 3 Z-100/Z-110 bus by January, trailed in 1982 with a Class 3-4 Z-220 bus. "A couple of prototypes already have arrived," Iveco's president revealed. "Several domestic bus body builders are working with us on these projects. We would bring knocked-down commercial Z-van chassis into the US with all bus body work completed here."

An Iveco Z-350 type bus entry to the domestic Class 4-5 marketplace is possible by 1983, "but we haven't started work on that project yet," Reardon added.

"Iveco doesn't plan to expand its range of Magirus trucks to the domestic Class 8 business," he said. "We have such a broad range of Z-model vehicles available to us from Europe, we feel that's where opportunity awaits. The US Class 3-5 truck business is a tremendous market. And we're not the only importer eyeballing this segment of commercial vehicle business."

Just as Iveco treads around entry of Magirus trucks into Class 8, Volvo appears ready to take the plunge. It recently bought bankrupt White Motor Corp. for $70.4 million and immediately announced its intentions to assemble mid-size nameplate Volvo trucks in the US by 1982.

Speculation swirls around the truck OEM industry that stateside Volvo assembly (not manufacture) will occur at White's New River Valley, VA vehicle production site. Volvo declined repeated attempts to be interviewed for this report.

It appears that most European commercial vehicle importers, except Volvo, are poised to vertically integrate the domestic truck business shortly. The real significance of this development still must be sorted out. But stateside truck assembly for most vehicle importers during the next cyclical upturn may be needed to compete more cost efficiently with domestic OEMs. ■

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